

Cross-Country Wage Differentials

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Abstract

The main purpose of this article is to identify the major determinants of the wage level in the long run in the Armenian economy and assess the relative importance of these factors compared to other countries. We use annual macro-data for the period 1995-2014 for 55 developed and developing countries. Using econometric models for panel-data analysis we found positive correlation between real wages and productivity and negative correlation between real wages and unemployment.

We also found that higher bargaining power and higher reservation wage are associated with real average wage increase. The policy relevant result is that after controlling for productivity and unemployment real average wage in Armenia is higher than in most of the countries in the sample and the main potential explanatory factor behind this phenomenon is remittances, which constitute relatively big share of GDP and act as a reservation wage for remittance receiving individuals.

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